FINAL INTERNAL AUDIT REPORT

CHIEF EXECUTIVES DEPARTMENT

CREDITORS AUDIT FOR 2013-14

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Report No.:   CX/009/01/2013

REVIEW OF CREDITORS-AUDIT FOR 2013-14

INTRODUCTION

1. This report sets out the results of our systems based audit of Creditors. The audit was carried out in quarter Q3 as part of the programmed work specified in the 2013-14 Internal Audit Plan agreed by the Section 151 Officer and Audit Sub-Committee.

2. The controls we expect to see in place are designed to minimise the department's exposure to a range of risks. Weaknesses in controls that have been highlighted will increase the associated risks and should therefore be corrected to assist overall effective operations.

3. The original scope of the audit was outlined in the Terms of Reference issued on 15/11/13. The period covered by this report is from November 2012 to November 2013.

AUDIT SCOPE

4. The scope of the audit is detailed in the Terms of Reference.

AUDIT OPINION

5. Overall, the conclusion of this audit was that substantial assurance can be placed on the effectiveness of the overall controls, with limited assurance in the area of credit notes. Definitions of the audit opinions can be found in Appendix C.

MANAGEMENT SUMMARY

6. 3 out of 4 previous recommendations made by audit in 2012-13 have been fully implemented however the recommendation relating to orders being made when spending commitment is made is still outstanding.

7. The audit reviewed controls in the following areas: system reconciliation; BACS payments and feeder files; policies, procedures and training; cumulative spend; duplicate suppliers and payments; non-applied credit notes; system security; and amendments to standing data.

8.   In addition, a random sample of 35 payments was selected from Oracle, excluding payments for schools' funding, VAT, SEN and investments. These payments were reviewed to establish that a goods received check had been undertaken, that payments were charged to the correct cost centre, for the correct amount, approved appropriately before payment, invoices were paid within 30 days and that VAT was accounted for correctly. Confirmation was sought that orders had been raised in a timely manner; valued correctly, authorised properly and that adequate budget provision was available at the time of commitment to spend.

9.   During the audit the following issues were identified:

- The management of credit notes is not robust
- The corporate signatories and office procedures need review.
- Orders are not always raised at the time of commitment to spend and the retrospective purchase order report is not prepared accurately
- Leavers do not always have system access rights removed;
- Evidence of checking procedures is not always maintained for change of bank details;
- The ledger control account is regularly reconciled to the creditors control and balanced to zero, although there is no evidence that this has been reviewed by an independent officer.

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10.   As there were no changes to the cheque printing control process this area was not reviewed as part of this year's audit.

SIGNIFICANT FINDINGS (PRIORITY 1)

11.   There is one priority one issue which requires managements immediate attention

Orders are not always raised at the time of commitment to spend, the 'retrospective purchase order' report showing 3,290 retrospective orders being raised between 31/01/13 and 31/05/13.

DETAILED FINDINGS / MANAGEMENT ACTION PLAN

12.   The findings of this report, together with an assessment of the risk associated with any control weaknesses identified, are detailed in Appendix A. Any recommendations to management are raised and prioritised at Appendix B.

ACKNOWLEDGEMENT

13.   Internal Audit would like to thank all staff contacted during this review for their help and co-operation.

No.	Findings	Risk	Recommendation
1	**Credit Notes: :** On the 22/01/14 the balance of unapplied credit notes was £239K, with £169K credit notes over 1 year old . £163K (273 items) relates to credit notes raised before the contractors contract began 01 October 2012, and £76K (115 items) since this time. The authority is currently reviewing all credit notes pre-October 2012. At the time of the audit debtors' invoices have been requested for 35 credit notes totalling £12,654. It is anticipated that more debtors' invoices will be raised for some of the remaining live credit notes. Post-October 2012 credit notes are reviewed by the contractor on a monthly basis and reported to the Exchequer Manager. In reviewing credit notes it was noted that a an Environmental Services credit note for £149,766 relating to February 2013 was not entered onto the system until 15/11/13, due to a dispute with the contractor.	Failure to apply credit notes promptly will have an adverse impact upon cash flow and increases the likelihood of increased cost of recovery (i.e. debtors' recovery action) or the risk that the funds may not be recovered.	**Ensure that prompt action is undertaken to recover monies due from live credit notes on the system. Going forward credit noted should be applied as soon as possible after receipt.** **Ensure that in future credit notes, rather than full refunds, are only accepted where it is likely that the supplier will be used again in the immediate future** **[Priority 2].**

Priority 1	**Priority 2**	**Priority 3**
Required to address major weaknesses and should be implemented as soon as possible	**Required to address issues which do not represent good practice**	**Identification of suggested areas for improvement**

No.	Findings	Risk	Recommendation
	A review of 10 non applied credit notes (pre and post-October 2012) identified that certain Oracle system anomalies can hinder the processing of credit notes, detailed below: • 3 related to suppliers that have not had subsequent payments, • 2 were using a different site address (2074770 & 2182394), • 3 are now using a different payment method (2099870, 3100151 & 3000094), • 1 is using a different supplier number (2138107, other reference 3102737) and • 1 has been used but not matched (3101264).	Unnecessary payments may be made, impacting upon the Authority's financial resource.	**Consideration should be given to reviewing possible improvements to the electronic management of credit notes** **[Priority 2]**

Priority 1
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Priority 2
Required to address issues which do not represent good practice

Priority 3
Identification of suggested areas for improvement

No.	Findings	Risk	Recommendation
2	**Payment Authorisation:** The control document in use for creating/amending corporate authorised officers/signatories lists includes approval limit levels that are not aligned with the approval limits specified within the Financial Regulations and Procedures (July 2012), or the IProc authorisation levels. 5/20 BACS transmission reports sampled, did not have appropriate authorisation for the over £50K check. Three were signed by the Principal Finance Officer who was not on the authorised list of signatories, and the other two were signed by the Senior Accountant and Principal Finance Officer who do not have authority for over £50K check. For a further sample of 10 authorising officers it was identified that 2 had no level specified on the 'authorisers' form (Head of Schools Finance Support and Finance Director), 2 were not on the authorised list of signatories (AD Strategic Development and Performance for Adults and Community Services and Occupational Therapist Assistant) and a further 2 had different levels on the form as compared to IProc recorded authorisation levels (Assistant Head of Service for Education and Care Services and Partnership and Planning Officer for Education and Care Services).	Payments may be made without appropriate authorisation.	**Ensure that corporate signatories and office procedures are reviewed and updated where necessary** **[Priority 2]**

Project Code: CX/009/01/2013   Page 7 of 17

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No.	Findings	Risk	Recommendation
	Policies and Procedures: The review process for payment procedure guides was not always clear and for some guides there is no evidence that these have been recently reviewed. In particular, the document 'Guidance Notes on Making BACS Payments' is dated January 2008 and is not up to date with regards to responsible officer and Oracle processes.		
3	**Ordering:** 5/27 payments sampled (excludes Confirm payments from the sample of 35) had orders raised on the same day as or after the invoice date. • Supplier A, £672.00 order raised 19/2/12 - invoice dated 19/2/12 (sample 4), • Supplier B, £936.00 order raised 14/01/13 – invoice dated 10/10/12 (sample 6), • Supplier C, £1,530.00 order raised 20/05/13 – invoice dated 16/05/13 (sample 7), • Supplier D, £245,389.00 order raised 03/07/13, invoice dated 19/04/13(sample 31), • Supplier E, £2,673.55 order raised 08/10/13, invoice dated 30/09/13(sample 32).	If orders are not raised commitments will not be reflected in the budget monitoring report. The risk of purchasing unnecessary goods/services is increased were order authorisations controls are bypassed.	**Ensure officers are reminded to raise orders at a time of commitment to spend.** **[Priority 1]** **Ensure the retrospective purchase order report is presented accurately and the correct officers are approached to address the problem** **[Priority 2]**

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No.	Findings	Risk	Recommendation
	A 'retrospective purchase order' report was run in May 2013. This showed 4,788 retrospective purchase orders had been made in the period 30/01/13 to 30/05/13, with 68% of these attributed to 30 officers. However further examination of this report identified duplicated purchase order lines therefore producing inaccurate results with the actual total of 3,290 retrospective order being raised during the period. This would reflect new results to identify areas of concern.		
4	**Supplier Standing Data:** Controls of amendments to key supplier details were not always evidenced. For 10 changes to standing data, 4 related to changes of address and were satisfactory and 6 related to changes of bank accounts, with the following identified: • 1 had evidence of a check but no phone number recorded (2082489 08/10/11). • 3 had no evidence documented of checks (3110835 - 10/10/13, 3110835 - 15/10/13, & 3128726 – 28/10/13). • 1 was for a direct payment and there was no documented evidence on the request form that either the Supplier Management Team or the Care Team confirmed the bank details with the client. • 1 was satisfactory.	In recent years there has been an increase in the occurrence of mandate fraud whereby fraudulent requests to change bank details may go undetected if sufficient robust verification controls are not applied.	**Ensure that checks are undertaken for changes to bank details and evidenced on request forms, including Direct Payments [Priority 2]**

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No.	Findings	Risk	Recommendation
5	**System Access:** From a review of 10 leavers identified 3 still had system access privileges. A further review between active Oracle users and a list of leavers from HR highlighted that 44/223 leavers were still shown as having active user accounts, however only 16 leavers had an active profile.	Unauthorised access to the Oracle system	**Review processes for leavers on a corporate basis [Priority 2]**
6	**Reconciliations:** The ledger control account is reconciled to the creditors control account on a monthly basis and initialled and dated by the preparer, although there is no evidence that this has been reviewed by an independent officer.	Errors in the Authority's accounting process may not be identified on a timely basis.	**Ensure the ledger control account reconciliation is reviewed by an independent officer [Priority 3]**

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Finding No.	Recommendation	Priority *Raised in Previous Audit	Management Comment	Responsibility	Agreed Timescale
1	**Ensure that prompt action is undertaken to recover monies due from live credit notes on the system. Going forward credit noted should be applied as soon as possible after receipt.** **Ensure that in future credit notes, rather than full refunds, are only accepted where it is likely that the supplier will be used again in the immediate future**	2	Action is being taken to investigate the pre 2012 credit notes to and recover any debts that are due. In some cases the debt had already been recovered however the credit had not been cleared from Oracle. Wherever possible refunds will be requested in place of a credit note. The contractor would not always have the information to know whether a supplier would be used again in the immediate future and therefore would not be in a position to determine whether a credit note should be rejected. Advice would therefore need to be obtained from the relevant service department. The ES credit note for £149,766 was held by the service department as there was a dispute.	Exchequer Manager/ Contractor Contractor/Service Departments	31/05/14 On going

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Finding No.	Recommendation	Priority *Raised in Previous Audit	Management Comment	Responsibility	Agreed Timescale
	Consideration should be given to reviewing possible improvements to the electronic management of credit notes		The process for the management of credit notes will be reviewed and improvements will be made where possible.	Exchequer Manager/ Contractor/ The FIS Team	30/06/14
2	**Ensure that corporate signatories and office procedures are reviewed and updated where necessary**	2	The authorised signatory form has been updated and Liberata are working with LBB to update the details held on the authorised signatories' database.	Exchequer Manager/ Contractor	31/05/14
3	**Ensure officers are reminded to raise orders at a time of commitment to spend.**	1	A report is run quarterly and staff who are identified as having raised retrospective orders are reminded to raise orders at the time of commitment to spend. Where there has been no improvement this is escalated to the Exchequer Manager who approaches the relevant line manager.	All Service Departments/ Exchequer Manager/ Contractor	On going

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Finding No.	Recommendation	Priority *Raised in Previous Audit	Management Comment	Responsibility	Agreed Timescale
	Ensure the retrospective purchase order report is presented accurately and the correct officers are approached to address the problem	2	The retrospective purchase order report will be presented correctly from the next due period. A re-run of the May 2013 report has confirmed similar findings. 65% of retrospective purchase orders were attributed to 30 officers.	Contractor	31/03/14
4	**Ensure that checks are undertaken for changes to bank details and evidenced on request forms**	2	The appropriate checks are undertaken and are evidenced.

Client 3119387 had visual impairment and had not signed a bank detail form. However the AP team officer had both telephoned and written to the client to confirm his new bank details. Client 3120723 is a child and, correctly, his bank detail form was signed by his mother, acting as his representative. | Contractor | On going |

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Finding No.	Recommendation	Priority *Raised in Previous Audit	Management Comment	Responsibility	Agreed Timescale
			Supplier 3110835 10/10/13 – Supplier had completed and signed the Supplier Amendment Form, therefore no other checks required. Supplier 3110835 15/10/13 – same supplier as above but no record of change of bank details on this date exist on the system. Supplier 3128726 28/10/13 – the letter received from the supplier advising of their new bank details were correctly checked to the bank details shown on their invoice.		
5	**Review processes for leavers on a corporate basis**	2	If managers do not indicate on the corporate system Leavers form that their user had Oracle access then an e-mail **will not** be sent to the FIS team for them to remove system access. The list of users	n/a	n/a

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Finding No.	Recommendation	Priority *Raised in Previous Audit	Management Comment	Responsibility	Agreed Timescale
			identified in the audit were all I-Proc users with the exception of 3 that had just GL/AP/AR enquiry access. The FIS team normally send out lists to managers twice a year for them to verify the accuracy of their team's Approval Hierarchy. Any changes notified by managers are actioned in Oracle by the FIS team. Liberata normally notify the FIS team of any AP users that leave throughout the year however they will also be picked up when the annual report is sent out by the FIS team to check on current users. Therefore the failing is with Budget Managers who don't complete the Leavers form correctly. The FIS team have a process to find leavers as part of their annual review		

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MANAGEMENT ACTION PLAN

Finding No.	Recommendation	Priority *Raised in Previous Audit	Management Comment	Responsibility	Agreed Timescale
6	**Ensure the ledger control account reconciliation is reviewed by an independent officer**	3	A member of staff carries out a reconciliation every month. There are rarely any variations but if there are, and it can't be identified, line managers are notified of the situation. Meetings are held every quarter to review balances on all control accounts. If this isn't considered sufficient control then I will arrange for an e-mail exchange to confirm the situation each month.	Financial Information Systems Manager	31/04/14

Project Code: CX/009/01/2013   Page 16 of 17

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As a result of their audit work auditors should form an overall opinion on the extent that actual controls in existence provide assurance that significant risks are being managed. They grade the control system accordingly. Absolute assurance cannot be given as internal control systems, no matter how sophisticated, cannot prevent or detect all errors or irregularities.

Assurance Level	Definition
Full Assurance	There is a sound system of control designed to achieve all the objectives tested.
Substantial Assurance	While there is a basically sound systems and procedures in place, there are weaknesses, which put some of these objectives at risk. It is possible to give substantial assurance even in circumstances where there may be a priority one recommendation that is not considered to be a fundamental control system weakness. Fundamental control systems are considered to be crucial to the overall integrity of the system under review. Examples would include no regular bank reconciliation, non-compliance with legislation, substantial lack of documentation to support expenditure, inaccurate and untimely reporting to management, material income losses and material inaccurate data collection or recording.
Limited Assurance	Weaknesses in the system of controls and procedures are such as to put the objectives at risk. This opinion is given in circumstances where there are priority one recommendations considered to be fundamental control system weaknesses and/or several priority two recommendations relating to control and procedural weaknesses.
No Assurance	Control is generally weak leaving the systems and procedures open to significant error or abuse. There will be a number of fundamental control weaknesses highlighted.